In a non-precedential opinion addressing declaratory judgment jurisdiction, the U.S. Court of Appeals for the Federal Circuit affirmed a district court’s ruling that it lacked subject-matter jurisdiction over a declaratory judgment action by a manufacturer, finding that the manufacturer could not show that the patentee ever threatened or alleged direct or indirect infringement by the manufacturer. *Cisco Systems, Inc. v. Alberta Telecommunications Research Center*, Case No. 12-1687 (Fed. Cir., Aug. 29, 2013) (O’Malley, J) (non-precedential).

Cisco develops and manufacturers networking equipment used in telecommunications infrastructure. Alberta Telecommunications Research Center, doing business as TR Labs, brought suit against various telecommunication network providers, many of which are Cisco customers. In its complaints, TR Labs accused Cisco’s customers of infringing patents based on the use of Cisco products. TR Labs provided infringement claim charts that identified use of Cisco products. In order to protect its customers, Cisco sued TR Labs, seeking a declaratory judgment of non-infringement and invalidity of TR Lab’s patents.

TR Labs moved to dismiss Cisco’s complaint for lack of subject-matter jurisdiction, arguing that Cisco failed to establish that TR Labs had accused Cisco itself of either direct or indirect infringement. Prior to opposing the motion, Cisco sought a covenant not to sue and a release for Cisco customers from TR Labs. While TR Labs agreed to grant Cisco a covenant, no agreement was reached because TR Labs would not agree to release Cisco’s customers. After the district court granted TR Lab’s motion to dismiss, Cisco appealed.

The Federal Circuit affirmed, reasoning that while Cisco may have an interest in saving its customers from infringement allegations based on the use of its products, the interest presented here was insufficient to give rise to a current, justiciable case or controversy. The Court recognized the concession by TR Labs that it had no basis for suing Cisco either for direct or indirect infringement, and that TR Labs offered a covenant not to sue.

The Federal Circuit distinguished these facts from *Arkema* and *Arris*, where it found declaratory judgment jurisdiction. The Court noted that in *Arkema* the parties had a history of litigation of the products allegedly covered by the asserted patents, both in the United States and abroad, and, moreover, the patentee acknowledged that there were no non-infringing uses for the accused products. In *Arris*, the Court found an actual controversy existed between the parties because there were substantial communications regarding alleged infringement theories before the declaratory judgment action was filed. In this case, there were no protracted discussions between Cisco and its customers and Cisco has never asserted, nor could it point to any such agreements, that it has any indemnity obligations for its customers.
Practice Note
If a manufacturer desires to seek declaratory judgment against patents being asserted against its customers, it must find a basis beyond just that its products are identified in the complaint and in infringement contentions.

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Analyzing the interplay between claim construction and the written description requirement, the U.S. Court of Appeals for the Federal Circuit reversed and remanded a lower court’s summary judgment of invalidity for failure to comply with the written description requirement, finding that prior claim construction rulings do not control compliance with the written description requirement. Trading Techs. Int’l, Inc. v. Open E Cry, LLC, Case No. 12-1583 (Fed. Cir., Aug. 30, 2013) (Lourie, J.).

Trading Technologies (TT) filed a complaint alleging infringement of four of its patents relating to electronic trading in commodities. The patents claimed priority to an earlier-filed parent patent. Three of the asserted patents share a common written description, while the other is a continuation-in-part that contains substantial new disclosure.

The district court entered summary judgment for the defendants, holding all four patents to be invalid for failure to comply with the written description, premised on the previous claim construction ruling in eSpeed. In eSpeed, the Federal Circuit held that “static,” as used in the claims of the earlier-filed parent patent on which the four asserted patents rely for priority, referred to a display of price columns that does not change positions unless manually re-centered. The term expressly excluded displays that re-center automatically. In the asserted patents, TT amended the claims by removing the term “static” from references to the price column display. In the CIP patent, TT provided additional disclosure aimed at redefining and broadening the term “static.” The claims of the CIP patent still include the term “static.”

The defendants argued that the eSpeed decision was dispositive to the present dispute because the claim construction analysis turned on the same basic issue of whether the written description disclosed a display of price columns that move through means other than manual re-centering, such as automatic re-centering. The district court entered summary judgment of invalidity.

In reversing the district court, the Federal Circuit emphasized the difference in purpose of claim construction and the written description requirement. Claim construction, while guided by the specification, focuses only on defining a discrete claim term in order to better ascertain the boundaries of the claims. In contrast, the written description focuses on preventing patentees from claiming more than they have invented and disclosed to the public through the written description.

In eSpeed, the Federal Circuit determined the best construction of a single disputed claim term. This analysis did not conclusively find that the same written description could never support any claim to a display with a non-static price axis. Therefore, eSpeed did not address whether the written description of the asserted patents supported a non-static price axis. The Court also held that, in addition to the problems of analysis of the lower courts surrounding the other three patents, the analysis of the CIP patent suffered the additional problem of ignoring additional disclosure that is material to the present issue.

The Court also reversed a grant of summary judgment of prosecution history estoppel concerning the CIP patent. It held that the CIP patent’s additional and extensive disclosure that was not present in the earlier-filed parent patent directly contradicted the prosecution-based surrenders at issue in eSpeed.

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Revisiting the issue of patent subject-matter eligibility in software patents, the U.S. Court of Appeals for the Federal Circuit affirmed a lower court’s summary judgment of invalidity for lack of subject-matter eligibility, finding that Accenture’s insurance task patent to be directed to patent-ineligible subject matter. Accenture Global Services, GmBH v. Guidewire Software, Inc., Case No. 11-1486 (Fed. Cir., Sept. 5, 2013) (Lourie, J.) (Rader, C.J., dissenting).
The patent asserted by Accenture in the appeal is directed to a system and a method for generating tasks to be performed in an insurance organization. The district court, applying Bilski, held both the system claims and the method claims of the patent invalid under § 101. Accenture appealed only the invalidity of system claims and not the method claims.

The Federal Circuit agreed with the district court that the claims were not directed to patent eligible subject matter. Applying the plurality opinion in CLS Bank, the system claims were held to not have “meaningful limitations” beyond the method claims that were held patent-ineligible by the district court and not appealed. The Federal Circuit reasoned that this lack of difference between the invalid method claims and the system claims at issue was sufficient for the Court to avoid considering the patent eligibility of the system claims separately.

After noting that analysis of the issue was not required, the Court nonetheless proceeded to analyze and reject the patent eligibility of the system claims. After first identifying the abstract idea of the claims—generating tasks based on rules—the Federal Circuit rejected Accenture’s argument that the idea was limited by applying it “in a computer environment and within the insurance industry.” Returning to the meaningful limitations analysis, the Court rejected the sufficiency of certain claim elements to limit the claims beyond their abstract concept: a database of tasks, a means to access the database and a set of rules to be applied to the tasks. The Court noted, but held to be insufficient, the “very detailed software implementation guidelines” in the patent specification.

In a potentially significant comment, the Federal Circuit noted the difference in procedural posture between the patent eligible claims in Ultramercial and the ineligible claims in this case. Without elaborating, the Court stated that this case, having claim construction complete, presented a “different scenario” from the Ultramercial case.

In dissent, Judge Rader quoted Ultramercial, in which he wrote the majority opinion finding a software invention patent eligible, and where Judge Lourie concurred in the result. Calling the majority opinion “a testament to the perversity of a standard without rules,” Chief Judge Rader highlighted different ways that the abstract concept of the system claim could be performed without infringing the claims. He also questioned the reasoning by the majority that, based on CLS Bank, the patent eligibility of the system claims did not need to be individually considered based on the invalidity of the associated method claims. Chief Judge Rader noted that while eight of the ten en banc panel members in the CLS Bank found that the method and system claims in that case rose or fell together, they did not find that associated system and method claims be considered together.

Practice Note

Coming just three months after a similar issue was decided to the contrary in the Ultramercial case, this case would appear to add to the uncertainty surrounding patent eligibility for software-related inventions.

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Addressing the threshold question of subject matter jurisdiction sua sponte in the context of summary judgment of preemption of state law claims by federal patent law, the U.S. Court of Appeals for the Federal Circuit concluded that it lacked jurisdiction and transferred the case to the Third Circuit, finding that, under the pre-America Invents Act version of 28 U.S.C § 1295(a)(1), subject-matter jurisdiction over patent disputes derives solely from the complaint, not from any counterclaim, and the complaint did not plead a patent law issue. Wawrzynski v. H.J. Heinz Co., Case No. 12-1624 (Fed. Cir., Sept. 6, 2013) (Plager, J).

Wawrzynski patented a method for dipping and wiping a food article in a specially configured condiment package having a flexible cap to wipe away excess condiment from the food article. Wawrzynski presented his condiment packaging ideas and promotional materials, partly covered by his patent, to the Heinz Company. Wawrzynski allegedly also shared with Heinz his idea of creating a “dual function” product that permitted a consumer to either dip a food article into the condiment or separately squeeze out the condiment. Heinz was allegedly developing a new ketchup package around this same time. Months after the meeting, Heinz released its new “Dip & Squeeze®” packet, which allowed a user to either pull a tab to reveal a well of sauce for dipping or rip off an end of the packet to disperse sauce by squeezing.

After Wawrzynski sued Heinz in state court for breach of implied contract and unjust enrichment predicated on Heinz’s alleged use of Wawrzynski’s ideas for condiment packaging, the case was removed to district court based on diversity jurisdiction.

The complaint referenced Wawrzynski’s patent in its general allegations. Heinz answered with a counterclaim alleging invalidity

Is a Patent Counterclaim Enough for Appeal to the Federal Circuit? It Depends
and non-infringement of Wawrzynski’s patent. Wawrzynski filed a motion to dismiss Heinz’s counterclaim based on absence of a case or controversy under federal law since his complaint asserted state law claims, not patent infringement.

The district court denied Wawrzynski’s motion, concluding that the case implicated his patent, and instead granted Heinz’s summary judgment motion of non-infringement. The district court also granted summary judgment in favor of Heinz, ruling that federal patent law preempted the state law claims that Wawrzynski had alleged in his complaint. Wawrzynski admitted in his answer to Heinz’s counterclaim that he had not sued Heinz for patent infringement, and further provided Heinz with a covenant not to sue on the patent. Wawrzynski’s subsequent motion to dismiss Heinz’ counterclaims was also denied. Wawrzynski appealed.

The Federal Circuit disagreed with Wawrzynski’s contention that the Court had subject-matter jurisdiction under the AIA version of § 1295, which provides jurisdiction over appeals based on an action in which a party has asserted a compulsory counterclaim arising under patent laws, relying on Heinz’s counterclaim of non-infringement. The Court found that even if Heinz’s counterclaim were presumed compulsory, Wawrzynski’s case did not meet the effective date requirement of the AIA version of § 1295 because his action commenced before September 16, 2011, upon the filing of the complaint.

Despite concluding it lacked jurisdiction over the merits of the issues on appeal, the Federal Circuit nevertheless analyzed and decided the underlying issues to complete its jurisdictional analyses, which required determining whether Wawrzynski’s complaint alleged a patent issue. The Court found that the relief requested in the complaint aligned with state law claims; not a patent infringement claim. The Court noted that its conclusion that the complaint did not present a well-pleaded patent law issue undercut the lower court’s grant of summary judgment of preemption. The Court also agreed with Wawrzynski’s position that there was no case or controversy remaining to support a judgment on the infringement issue.

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Addressing the negative consequences of poor or erroneous claim drafting, the U.S. Court of Appeal for the Federal Circuit affirmed a narrow interpretation of a functional claim and a grant of summary judgment of non-infringement in favor of the defendant, finding that a narrow description of one species does not support a broader construction of the genus. **Bayer CropScience AG v. Dow AgroSciences LLC**, Case No. 13-1002 (Fed. Cir., Sept. 3, 2013) (Taranto, J).

Bayer filed a patent application with claims directed to an enzyme that, when genetically incorporated into plants, could make them resistant to the herbicide 2,4-D. According to the application, the enzyme catalyzed the breakdown of 2,4-D into something harmless in plants. As a result, the 2,4-D herbicide could be used to destroy weeds with no adverse effects on the genetically engineered plants. The application described the enzyme as having a 2,4-D monooxygenase function. This function was merely an assumption and unverified at the time. Later, while Bayer’s application was still pending, scientists determined that the enzyme was in fact a dioxygenase not a monooxygenase. However, Bayer failed to take appropriate steps to correct the error or to establish on record that the discovered enzyme functioned as a 2,4-D dioxygenase. On the contrary, Bayer pursued claims that were directed to the erroneously claimed function. The application issued as a patent with broad functional claims drawn to any and all recombinant genes encoding polypeptides having biological activity of 2,4-D monooxygenase.

In the meantime, Dow AgroSciences produced a line of genetically modified seeds resistant to 2,4-D, which expressed two dioxygenase (i.e., aryloxyalkanoate dioxygenase) enzymes. Bayer sued Dow for infringing its patent. In a Markman hearing that followed, Bayer sought a broad claim construction that would cover the Dow products. Bayer wanted the claims to be construed as covering any oxygenase enzyme that bring about the cleavage of the side chain of 2,4-D. The district court applied the “plain and ordinary meaning” to the term “2,4-D monooxygenase,” which based on the established scientific meaning functioned differently from a 2,4-D dioxygenases including the dioxygenases of Dow. Bayer appealed.

The Federal Circuit affirmed, reasoning that “public notice and patentee drafting duties make it appropriate to demand such a clarity here: Bayer chose the language based on an unverified belief that it
accurately described its enzyme, learned that the belief was false while its application was pending, had seven years before its patent issued to alter the language, but never did.”

Moreover, by acknowledging that validity analysis is not a regular component of claim construction, the Federal Circuit indicated that if it were to adopt the Bayer’s broad claim construction, the claims could be invalid for failing to meet the written description requirement. The Court acknowledged that it had not articulated a comprehensive and precise formulation for identifying how the broad construction could be found invalid under the written description requirement, but was of the opinion that disclosing one enzyme without sufficient correlation between its structure and function did not provide adequate written description support for a broad genus claim. Thus the Federal Circuit affirmed the district court’s summary judgment of non-infringement in favor of Dow.

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Addressing whether a cash offset to a settlement payment was the equivalent of a monetary gain for purposes of profit sharing under a patent assignment, the U.S. Court of Appeals for the Third Circuit reversed the district court’s dismissal of the case and allowed it to proceed to discovery, finding that a cash offset was in fact a monetary gain. Dr. Jang received a patent for a coronary stent invention. He then assigned the patent to Boston Scientific in an agreement that required it to share profits with Jang, including any damages recovered from third party infringers. In 2010 Boston Scientific settled a claim against Cordis Corporation for infringement of the patent in combination with a claim Cordis had against Boston Scientific. The settlement resulted in Boston Scientific paying Cordis and the parties exchanging several patent licenses. Importantly for this case, Boston Scientific received a multibillion dollar offset of the amount it paid Cordis based on Dr. Jang’s patent. Jang claims that the offset, as well as the valuable patent licenses Boston Scientific received, qualify as damages under the assignment agreement and must be shared with him. When Boston Scientific refused payment, Jang filed his complaint alleging breach of contract, breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty and a demand for the enforcement of an equitable lien on Boston Scientific’s right to recover from Cordis. The state law claims are governed by Massachusetts law. The district court granted Boston Scientific’s motion to dismiss the complaint, finding that the value Boston Scientific obtained in the Cordis settlement did not constitute a recovery of damages under the agreement. The district court denied Jang’s post-judgment motion for leave to amend his complaint to add a claim for violation of the agreement’s anti-assignment provision. Jang appealed.

The 3rd Circuit concluded that the agreement unambiguously defined damages as “cash received or monetary profits.” Accordingly it turned its analysis to Jang’s argument that the offset Boston Scientific received for its payment to Cordis should be considered a monetary gain for Boston Scientific. The Court agreed with Jang that the cash offset was the functional equivalent of a cash payment. It found that courts have “long recognized the equivalence of a debt offset and a cash payment through the common-law right of setoff.” The Court reversed the dismissal and returned the case to the district court for discovery and further proceedings.

Similarly, the Court reversed the dismissal of Jang’s breach of the covenant of good faith and fair dealing claim, finding the allegations “minimally sufficient” under Massachusetts law. Jang argued that Boston Scientific circumvented the agreement’s intentions that Jang share in any kind of infringement recovery by structuring the Cordis settlement as a cash offset and license.

Practice Note
When structuring assignment agreements, the parties should take care to detail whether non-cash recoveries from enforcing the patent are included in payments to be shared with the assignor.

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Addressing whether the safe harbor provision of 35 U.S.C. § 121 protects a patent from invalidity due to double patenting, the U.S. Court of Appeals for the Federal Circuit reversed a lower court’s application of the safe harbor, finding that consonance was not
maintained between the challenged patent, the reference patent and the patent in which the restriction requirement was made. *St. Jude Medical, Inc. v. Access Closure, Inc.*, Case No. 12-1452 (Fed. Cir., Sept. 11, 2013) (Plager, J.) (Lourie, J., concurring).

St. Jude Medical sued Access Closure (ACI) in the district court for alleging that ACI infringed its patents, including U.S. Patent No. 7,008,439 (the Janzen patent) and U.S. Patent Nos. 5,275,616 and 5,716,375 (the Fowler patents).

The Janzen patent is a continuation of a parent patent that is a divisional of a grandparent patent. During prosecution of both the grandparent and parent patents, the U.S. Patent and Trademark Office examiner required restriction of the application under 35 U.S.C. § 121 to one of the device or method inventions and further to one of the identified species. The applicant elected a device and a species. Later, the Janzen application was filed as a continuation of the parent application, but the Janzen application issued with both device and method claims out of an interference proceeding. While the Janzen application was pending, another sibling application issued prior to issuance of the Janzen patent. The Janzen patent included claims similar to those of the sibling patent.

At trial, the jury found that ACI had infringed the Janzen patent, but that the Janzen patent was invalid for double patenting in view of its sibling patent. However, at a bench trial, the district court determined the safe harbor provision of 35 U.S.C. § 121 applied to the Janzen patent and thus overturned the jury’s invalidity finding. ACI appealed.

On appeal, the Federal Circuit reversed the district court’s ruling, finding that the Janzen patent is invalid because the safe harbor provision does not apply to the Janzen patent since the Janzen patent and the sibling patent did not maintain consonance. Consonance requires “that the challenged patent, the reference patent, and the patent in which the restriction requirement was imposed (the restricted patent) do not claim any of the same inventions identified by the examiner.” In the case of the Janzen patent, the Court determined that the sibling application was not filed “as a result” of the restriction and it overlapped with the Janzen claims, that is, both of the sibling patent and the Janzen patent included device and method claims and included inventions that are not distinct, and thus consonance was not maintained between the Janzen patent and the sibling patent.

Concurring with the majority opinion, Judge Lourie commented that “the majority opinion overcomplicates the analysis of this appeal and improperly commingles restriction practice with election of species practice” and also suggested “[i]f there was no generic claim . . . then the applicant could have argued that the species were not independent and distinct inventions. Alternatively, a separate application could have been filed on non-elected species.”

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**Verbal Description of Patented Design Is Critical to Support Obviousness Holding**

Addressing the standards for obviousness and functionality of a design patent, the U.S. Court of Appeals for the Federal Circuit reversed and remanded a district court’s grant of summary judgment of invalidity, finding that the lower court’s ruling was at too high a level of abstraction and failed to focus on the distinctive visual appearances of the various designs. *High Point Design LLC v. Buyer’s Direct, Inc.*, Case No. 12-1455 (Fed. Cir., Sept. 11, 2013) (Schall, J).

High Point Design filed this declaratory judgment suit in response to a cease and desist letter from Buyer’s Direct Inc. (BDI), which alleged that High Point’s FUZZY BABA® slippers infringed BDI’s design patent for an ornamental slipper. High Point later filed a motion for summary judgment of non-infringement and invalidity of BDI’s patent.

The district court granted High Point’s motion. The district court held that BDI’s patent was invalid as obvious to an ordinary observer in light of two prior art designs. Further, the district court held that the claimed design was “primarily functional.” BDI appealed.

Regarding the obviousness holding, the Federal Circuit found that the district court erred in applying the ordinary observer standard, indicating that obviousness must be assessed “from the viewpoint of an ordinary designer.” Relying on *Darling v. Spectrum Furniture Co.*, the Court found that a fact finder must follow two steps to assess obviousness of a design. The first step is to find a primary reference having design characteristics that are basically the same as the claimed design. The second step is to determine whether the primary reference may be combined with other references to “create a design that has the same overall visual appearance as the claimed design.”

Focusing on the first step, the Federal Circuit found that the district court erred by failing to translate the design of a prior art patent into a verbal description and by failing to provide its reasoning in determining that the prior art created “basically the same visual impression” as the claimed design. The Federal Circuit, guided by *Egyptian Goddess*,

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stated that the verbal translation of the design required under Darling's obviousness inquiry serves as “an explanation of a legal ruling”—distinct from the optional elaborate verbal claim construction to guide the finder of fact in conducting the infringement inquiry.

The Federal Circuit concluded that the district court’s description was at too high a level of abstraction and failed to focus on the distinctive visual appearances of the reference and the claimed design. The Federal Circuit remanded with instruction to “add sufficient detail to its verbal description of the claimed design to evoke a visual image consonant with that design.” Further, the district court was instructed to do a side-by-side comparison of the two designs to determine if they create the same visual impression. Given these errors, the Federal Circuit expressly took no position on whether the patented design was obvious.

The Federal Circuit also reversed the district court’s holding that the claimed design was primarily functional. The district court improperly conflated patent law’s utility requirement with an analysis of the functionality of the design of the article by analyzing whether the design’s primary features could perform functions. Instead, the district court should have analyzed whether the design, as a whole, was dictated by functional considerations.

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The patent in issue was owned and maintained by the Naval Research Laboratory (NRL). Accordingly to NRL internal procedures, the patent was permitted to lapse, by nonpayment of maintenance fees, because there was no commercial interest in it.

Two weeks after the lapse became effective, the NRL received an inquiry from the predecessor to Network Signatures about licensing the patent. The predecessor indicated that he had tried to reach NRL several times to inquire about the license before the lapse of the patent, but did not succeed.

The NRL then petitioned the Patent and Trademark Office (PTO) to accept delayed payment of the fee using standard PTO procedures and the standard form for late payment of issue fees. The PTO granted the petition. The patent was then duly licensed and Network Signatures sued State Farm Mutual Automobile Insurance Company for infringement of the patent.

As a defense, State Farm asserted that the patent was permanently unenforceable on the ground that the NRL patent attorney had engaged in inequitable conduct by “falsely representing” to the PTO that the NRL’s non-payment of the maintenance fee was “unintentional.”

The Federal Circuit, applying the two-prong test for inequitable conduct, which requires both a showing of withholding material facts and an intent to deceive, found that the NRL attorney did not commit inequitable conduct when he used the standard PTO form to submit late payment of issue fees (i.e., a form that stated the non-payment of the issue fee was “unintentional”). The Court found that the NRL attorney’s failure to state the exact reasons why the issue fee was not initially paid did not amount to inequitable conduct because the PTO form did not require any explanation of the reasons for non-payment. The Court focused on the fact that the acceptance of late fees is within the discretion of the director of the PTO and that the acceptance of the late fees without requiring further explanation is within the bounds of that discretion.

The Court further highlighted the fact that the non-payment of fees in this case was a mistake of fact, because had facts that were not known at the time of the lapse been known (here the third-party interest in a license) the lapse would not have occurred.

In the end, the Court found that matters unrelated to “substantive criteria of patentability” should be left to the discretion of the PTO, and where the PTO does not require specific showing of facts in these matters, failure to disclose such facts does not amount to inequitable conduct.

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Addressing a finding of obviousness by the U.S. Patent and Trademark Office, Board of Patent Appeals and Interferences (Board), the U.S. Court of Appeals for the Federal Circuit reversed the Board’s obviousness ruling, finding that the Board failed to properly account for the importance of objective evidence of non-obviousness. Rambus Inc. v. Rea, Case No. 12-1634 (Fed. Cir., Sept. 24, 2013) (Moore, J).

Rambus owned a patent directed to a synchronous memory system that transfers data on both rising and falling edges in a cycle of an external clock signal, thus enabling double the speed of conventional systems that only transferred once per cycle. During an inter partes reexamination, the Board found that certain claims were anticipated by an unexamined Japanese patent Application and that other claims were rendered obvious by an Intel iAPX system manual in light of the unexamined application.

On appeal, Rambus first took issue with the Board’s construction of the terms “external clock signal” and “write request.” The Federal Circuit rejected Rambus’ argument that “external clock signal” was required to operate continuously, finding no such requirement in the intrinsic evidence. The Court also rejected Rambus’ argument that there was a conflict between the Board’s construction permitting a single-bit “write request” and the Federal Circuit’s earlier construction of “a series of bits.” Because the earlier dispute did not address the number of bits, the Court held that there was no conflict and concluded that requiring more than one bit would improperly read out the preferred embodiment. Anticipation turned on the Rambus’ claim construction arguments and was affirmed.

Turning to obviousness, the Federal Circuit concluded that the Board improperly shifted the burden of proof when it concluded that Rambus had failed to demonstrate that skilled artisans would not have been able to arrive at the claimed invention. The Court next held that the Board impermissibly relied on new findings without issuing a new ground of rejection when it provided additional ways to combine after admitting that the examiner was incorrect in concluding that the iAPX system did not use all of the edges of the clock signal.

Finally, the Federal Circuit held that the Board erred by rejecting Rambus’ objective evidence of non-obviousness. Stating that such evidence is often “the most probative and cogent evidence in the record,” the Federal Circuit concluded that it was “beyond dispute” that the claimed functionality enabled the praise by others, including competitors, relied on by Rambus. The Court also rejected the Board’s rejection of licenses as evidence of non-obviousness, holding that there was no evidence that the licenses were related to anything other than the invention. Finally, the Court took issue with the Board’s finding that the evidence only tied to aspects in the prior art and, noting that obviousness centers on the claims as a whole, instructed the Board to only parse out evidence solely directed to prior art functionality.

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On appeal, the Federal Circuit affirmed the lower court’s claim construction, but reversed the non-infringement judgment for Reddy. The Federal Circuit found that the “applicants’ repeated and consistent attribution of the purity level of less than 0.25% levorotatory isomer to ‘the invention’ and ‘the instant invention’ during prosecution defined the term ‘essentially free.’” For example, in overcoming an obviousness rejection, the applicant identified the invention as exhibited by Example 1 and submitted a declaration stating that the “pure form” of the dextrorotatory isomer of zopiclone “as described in Example 1” contained “lower than 0.25%” of the levorotatory isomer. The Court found that the district court’s claim construction was supported by the totality of evidence on record.

Regarding infringement, the Federal Circuit held that because Reddy’s ANDA specification describes a product that meets the limitations of the asserted claims, it constitutes infringement. Reddy was seeking approval to market a product that met the limitations of the asserted claims. The district court’s reliance on Reddy’s internal manufacturing guidelines for non-infringement was misplaced. The Federal Circuit believed that allowing an ANDA applicant to avoid infringement based on unconventional and unenforceable guarantees while seeking to market a product that fell within the scope of the asserted claims was incompatible with principles of patent law. If it had no intent to infringe, Reddy should not have requested, or should not accept, approval to market a product within the scope of the claim. Reddy could not avoid infringement by the so-called certification pledging.

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For patent-based infringement allegations § 337 require proof of a domestic industry relating to “articles protected by the patent.” 19 U.S.C. §§ 1337(a)(2),(3). In the underlying ITC investigation, the complainant Microsoft alleged that Motorola Mobility infringed four of Microsoft’s patents. With respect to two of the asserted patents, Microsoft alleged a domestic industry based on investments in software applications related to the Windows Mobile operating system. Although Microsoft’s expert identified certain “example” applications that Microsoft provided to third-party mobile device manufacturers, Microsoft failed to show that any such applications were actually implemented on any third-party mobile device.

The ITC found Microsoft’s showing to be insufficient to satisfy the domestic industry requirement. In affirming the ITC’s determination based on substantial evidence, the Federal Circuit noted that “[t]here is no question about the substantiality of Microsoft’s investment in its operating system or about the importance of that operating system to mobile phones on which it runs,” but found that was not enough under the statute because “Section 337, though not requiring that an article protected by the patent be produced in the United States, unmistakably requires that the domestic company’s substantial investments relate to actual articles protected by the patent.” The Court further stated that “[a] company seeking section 337 protection must therefore provide evidence that its substantial domestic investment—e.g., in research and development—relates to an actual article that practices the patent, regardless of whether or not that article is manufactured domestically or abroad.”

Accordingly, the Court concluded that there was substantial evidence to support the ITC’s determination that Microsoft failed to meet the statutory requirement of a domestic industry with respect to articles protected by the asserted patent. As noted by the Court, “[t]he Commission did not lack substantial evidence to support its finding that Microsoft simply failed to identify any actual phones with the required components performing as required [by the asserted patents].”

Based on Microsoft’s failure of proof on domestic industry, the Federal Circuit affirmed the ITC’s determination of no § 337 violation as to two of the asserted patents without reaching the issue of infringement.

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In a decision addressing a variety of issues including obviousness, admissibility of expert testimony and waiver of an indefiniteness argument, the U.S. Court of Appeals for the Federal Circuit vacated the district court’s grant of summary judgment of non-obviousness and remanded the case, but affirmed the district court’s admission of disputed expert testimony. *MeadWestVaco Corp. v. Rexam Beauty & Closures, Inc.*, Case Nos. 12-1518, -1527 (Fed. Cir., Sept. 26, 2013) (Prost, J).

The patents-in-suit relate to perfume dip tubes that appear to disappear when immersed in liquid, enhancing the aesthetic appearance of the perfume bottle. To achieve this effect, the inventors utilized a transparent fluoropolymer with an XRD crystallinity of less than 13 percent. After MeadWestVaco (MWV) began marketing the new tubes, Rexam and Valois obtained samples and worked to design around MWV’s claims.

Prior to trial, MWV moved for, and the district court granted, summary judgment of non-obviousness of the asserted claims of both patents. The district court in particular noted that there was evidence of belief that fluoropolymers should not be used in fragrance bottles and that there was both long-felt need and commercial success specific to the perfume industry.

The Federal Circuit vacated the district court’s grant of summary judgment and remanded for a trial on this issue. The Federal Circuit noted that the asserted claims were not limited to fragrance products and that the district court had resolved material issues of fact in favor of MWV. For instance, co-defendant Valois had put forth evidence contradicting both MWV’s claims of commercial success and of teaching away.

The Federal Circuit also analyzed the lower court’s decision not to exclude expert testimony. Specifically, regarding XRD crystallinity, the patent listed several parameters to be used in the characterization, but not a complete list. The parties engaged experts at trial who used very different parameters in their analyses. Unsurprisingly, the experts came to opposite conclusions regarding infringement. Rexam moved to exclude MWV’s expert on the grounds that the expert did not follow all of the XRD parameters listed in the patent, but the district court allowed the testimony.

The Federal Circuit found that Rexam’s arguments went to infringement, not admissibility. The expert was not applying a new claim construction, but rather concluding that the accused products infringed under the court’s claim construction, even though he used slightly different testing parameters from those listed in the patent. The Federal Circuit found that the district court did not abuse its discretion in allowing the expert’s testimony.

As to infringement, the district court credited MWV’s expert and found Rexam’s expert unreliable at a bench trial. “The trial court is given broad discretion in determining credibility because the court saw the witnesses and heard their testimony.” The district court found that MWV’s expert’s slightly different parameters could not have substantially affected his results, and the Federal Circuit did not find this to be reversible error.

Rexam and Valois had also moved for summary judgment of indefiniteness. The district court denied both motions, stating, “Plaintiff’s patent is not indefinite as a matter of law.” Valois and Rexam argued that the district court had sua sponte granted summary judgment of definiteness to MWV. The Federal Circuit disagreed, concluding that the district court had merely denied the defendants’ summary judgment motions. The defendants failed to raise the issue again at the bench trial, and the Federal Circuit found that they had waived the issue.

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**File Hosting in German Carries Increased Copyright Policing Duties**

The German Supreme Court has now further tightened the duties and responsibilities of file-hosting services to prevent copyright infringement. *GEMA v. RapidShare*, (Bundesgerichtshof, Aug. 16, 2013, Bundesgerichtshof).

This case concerns a dispute between the German copyright collecting society, GEMA, and the Swiss-based file-hosting service, RapidShare. GEMA sued RapidShare in Germany, alleging that over 4,800 copyrighted music files were shared via RapidShare without consent from GEMA or the right holders.

A crucial aspect of the judgment, as it relates to RapidShare’s liability, relates to the business model in issue. Even though, as the court
points out, RapidShare’s business model is legally acceptable and is not primarily designed for violating rights, it nevertheless provides incentives to third parties to illegally share copyrighted content. This is a consequence of the fact that the RapidShare’s revenues are not generated based on fees for storage space, as it is common in the area of cloud computing, but are generated through premium accounts which enhance massive data downloads. In addition, according to the court, the illegal use seems to be further stimulated by the fact that RapidShare provides anonymous accounts to its user. In connection with the case, RapidShare even acknowledged that it has an abuse rate of 5 to 6 percent. Based on a daily upload volume of 500,000 files, this rate corresponds to approximately 30,000 infringing acts daily.

Due to the more or less built-in incentives to breach the law, the German court saw fit to impose some additional duties on RapidShare to mitigate infringements. The new rules do not require a file-hosting service to review every file that is uploaded by a user on the server. As the court acknowledged, such a rule would render RapidShare’s business impossible. Nevertheless, as the court announced in an earlier decision (July 2012; ATARI vs. RapidShare), a host-service provider is not only required to delete files containing copyrighted material as soon as it is notified of a violation by the right holder, but must also take steps to prevent similar infringements by other users in the future. In the ATARI case, RapidShare neglected to check whether certain files in issue were stored on its servers by other users. The court ruled that RapidShare should have checked its servers for similar infringing material stored by other users.

In the ATARI case, the court did not explicitly state that RapidShare’s business model provided an incentive for copyright infringement. However, in the GEMA case, the court did so state and imposed on RapidShare (and similar file-hosting services) more stringent monitoring duties. File-hosting services are now required to actively monitor incoming links to discover copyrighted files as soon as there is a specific reason to do so and to then ensure that these files become inaccessible to the public. As indicated by the court, the service provider should use all possible resources such as search engines, Facebook, Twitter or web crawlers to identify such links that were rendered publically accessible by the users through link lists.

Besides a vague reference by the court to the use of “technically and economically reasonable measures” to prevent breaches, the judgment leaves some uncertainty as to what exactly is required. The decision does not contain clear guidance as to the extent of the monitoring duty now imposed. For instance, how much of a service provider’s resources should be invested in tasks designed to comply with the new duties. In this case, at least, the court did not find it too burdensome to monitor 4,800 music files.

Practice Note
While this decision specifically concerns RapidShare, it also applies to other file-hosting services with a similar business model. Accordingly, companies engaged in this business should now review their current business models to adapt them to the new duties, if necessary.

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COPYRIGHT / LIABILITY

Corporate Officers May Be Personally Liable for Copyright Infringement

The U.S. District Court for the Northern District of Illinois held that the individual operators of a defendant website may be held personally liable for copyright infringement for activities occurring on the website. The court found that because the individual defendants comprised the entity’s entire workforce, it was reasonable to infer that the defendants committed copyright infringement. Asher Worldwide Enterprises, LLC v. Housewaresonly.com, Inc., Case No. 1:12-00658 (N.D. Ill., Aug. 26, 2013) (Durkin, J.).

Plaintiff Asher Worldwide sells discounted commercial kitchen equipment through its website www.reliabuy.com. Each product sold on the website has a description of the product attached to it, created by either an employee of Asher or a third party. The copyrights of the descriptions accompanying the products are owned by Asher.

Defendant, Housewaresonly.com, comprised of Stuart N. Rubin and Marcia Rubin (the Rubins), sells discounted kitchen equipment to restaurants through its websites housewaresonly.com and restaurantkitchenwarehouse.com. Housewaresonly directly competes with Asher. In 2009 and 2010, almost 100 of the copyrighted descriptions owned by Asher and posted on Asher’s website appeared on Housewaresonly’s website. After Asher’s website was redesigned in 2010 to provide potential buyers with more information about discounted commercial kitchen equipment, Housewaresonly launched its second website restaurantkitchenwarehouse.com. Asher claimed that Housewaresonly’s second website contained more than 200 of Asher’s copyrighted descriptions.
Asher sued Housewaresonly for copyright infringement of its copyrighted product descriptions. However, soon after Asher filed the lawsuit, the Rubins dissolved the company, removed its assets and moved to an unknown location. The service of process on the company was delayed because it was discovered that the address listed as their corporate headquarters was a UPS Delivery store. Asher later amended its complaint to include the Rubins as defendants in the case, arguing that the Rubins acted willfully and personally participated in the alleged infringing activities. Housewaresonly filed a motion to dismiss, arguing that they cannot be personally liable for infringement committed by the Housewaresonly.com entity and that Asher had not made a “special showing” of willful personal participation in the infringing activities.

As the district court explained, according to the Seventh Circuit precedent, a corporate officer can be held liable if he acted willfully and knowingly participated in the infringing activities or used the corporation to carry out their own deliberate infringement. Here, the court said that “it is reasonable to infer that the infringement actions of the corporation were committed by the individual defendants because they are in fact the corporation.” The Rubins were not only the heads of the corporation, they comprised the entire workforce. Therefore, the court denied the Rubins’ motion to dismiss, finding it at least plausible that the individual defendants personally participated in the alleged infringement.

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**In a case involving de novo review of personal jurisdictions over the defendant, the U.S. Court of Appeals for the Second Circuit affirmed a district court dismissal of copyright infringement allegations for lack of jurisdiction, finding no injury in the jurisdiction where the copyright holder chose to file its action. Troma Entertainment, Inc. v. Robbins et al., Case No. 12-1883 (2d Cir., Sept. 6, 2013) (Sack, J.).**

The action began as a business dispute between a producer and distributor of "spoof films" and its outside distribution/licensing specialists Lance H. Robbins and King Brett Lauter. Troma Entertainment, creator of the spoof films *Citizen Toxie, Toxic Avenger Part IV* and *Poultrygeist: Night of the Chicken Dead*, sought to license the film distribution rights. In October 2009, it authorized defendant Robbins to negotiate a distribution deal for the films in Germany. After 30 days of seemingly unsuccessful efforts to secure the desired license, Robbins’s authorization lapsed. Troma Entertainment was of the impression that no agreements had been reached, yet it later came to light that Robbins had actually secured a distribution deal for the films with German distributor Intravest before he had authorization to do so. Unbeknownst to Troma Entertainment, instead of disseminating authorized copies of the spoof films, Robbins and co-defendant Lauter purchased German-language copies of the films on Amazon.com, sent Intravest those unauthorized copies for distribution and kept the proceeds of the arrangement with Intravest.

Upon learning that Robbins and Lauter had exceeded the scope of their authority—and that the unauthorized actions resulted in Intravest’s distribution of the spoof films on a German movie channel—Troma Entertainment filed suit. The complaint alleged federal copyright infringement and state law claims of fraud and tortious interference with prospective economic advantage. After the district court dismissed the complaint on jurisdictional grounds, Troma appealed.

The 2d Circuit chronicled the facts underlying the suit, but never reached the substance of Troma’s allegations because the complaint made no suggestion that the defendants’ tortious conduct caused personal injury in New York. The 2d Circuit retraced the district court’s application of the New York long-arm statute and concluded that the lost licensing opportunity was not a statutory basis for exercising personal jurisdiction over Robbins or Lauter. The panel noted that Troma’s theory of out-of-state infringement harm was plausible and suggested that defendants’ conduct may have undercut the protections afforded to copyright holders, but ultimately held the case must proceed where plaintiff’s business was lost or threatened. While the decision hints that California or Germany were the appropriate litigation forums, it dismissed the action without affording Troma any relief.

**Practice Note**

While this case was decided as a straightforward motion to dismiss, there is indication that the action would have proceeded if plaintiff had been willing to litigate in a different forum. When the district court inquired as to transferring the case to U.S. District Court for the Central District of California, Troma indicated that it was not willing to transfer venue. The district court then entered judgment dismissing the law suit for both lack of jurisdiction and improper venue.

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TRADE DRESS / FUNCTIONALITY

TrafFix Greases the Functionality Skids

Breaking stride with several other appellate courts (including the U.S. Court of Appeals for the Federal Circuit), the U.S. Court of Appeals for the Sixth Circuit ruled that the competitive necessity test is only applicable in cases of “esthetic functionality,” not in cases of utilitarian functionality, reversing a $1.2 million trade dress infringement jury award. Groeneveld Transport Efficiency, Inc. v. Lubecore International, Inc., Case Nos. 12-3545, -3576 (6th Cir., Sept. 12, 2013) (Gilman, J.) (White, J., dissenting).

Groeneveld is an American company that has made and sold automated lubrication services (ALS) devices, the primary component of which is a grease pump, for over 40 years. In the 1980s, Groeneveld began marketing its EP0 grease pump. Lubecore is, as the Court describes, “the new kid on the block,” having been founded in Canada in 2007 by a former Groeneveld employee. In 2007 Lubecore designed a competitive grease pump, which Groeneveld recognized as a “virtual copy” of the Groeneveld EP0 grease pump, and began selling it in the United States in 2009.

Groeneveld filed suit in 2010 alleging that Lubecore’s grease pump infringed Groeneveld’s trade dress rights in the configuration of its EP0 pump. The complaint asserted Lanham Act claims of trade dress infringement, false advertising and unfair competition, and related state law claims. A seven-day jury trial was held in October 2011. After Groeneveld rested its case, Lubecore moved for judgment as a matter of law (JMOL) under Rule 50 of the FRCP. The Court granted Lubecore’s motion with respect to all claims except for the trade dress infringement claim, which was submitted to the jury. The jury returned a verdict in favor of Groeneveld, finding willful trade dress infringement and awarding Groeneveld $1,225,000 in damages. This appeal followed.

In reversing the award and remanding the case for entry of judgment in favor of Lubecore on all claims, the 6th Circuit relied heavily on the Supreme Court’s seminal TrafFix case, which previously reversed the Sixth Circuit in a trade dress infringement case. The 6th Circuit interpreted TrafFix as holding that “competitive necessity is an appropriate avenue of inquiry . . . only in cases of ‘esthetic functionality,’ not in cases of utilitarian functionality where a design is essential to the use or purpose of a device.” Thus, the 6th Circuit rejected Groeneveld’s evidence to the effect that none of its competitors other than Lubecore felt it necessary to make a similar-looking pump to perform the same function of delivering grease to a commercial truck engine as irrelevant to the central issue of “whether Groeneveld’s design ‘is essential to the use or purpose of the article or if it affects the cost or quality of the article.’” Finding Groeneveld’s evidence on that score to be deficient, the 6th Circuit reversed the court’s entry of judgment in favor of Groeneveld on its trade dress infringement claim.

Judge White, in dissent, disagreed with the majority and its interpretation of the holding in TrafFix. The dissent would have affirmed the award and the district court’s judgment in favor of Groeneveld, asserting that TrafFix held only that the existence of alternative designs cannot by itself render a trade dress non-functional where it is otherwise functional, but not ruling out the relevance of such evidence to the determination of whether the design in question is in fact functional, citing decisions from a number of other appellate courts, including the Federal Circuit.

Practice Note
Other than avoiding courts in the 6th Circuit for your product configuration trade dress infringement case, Groeneveld’s most significant lesson may be the importance in such a case of focusing the court’s attention, for example with the testimony of an expert engineer or the like, on the specific features of a product that are not dictated by functional concerns.

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TRADEMARKS / UPDATED PRC REGULATIONS

The New PRC Trademark Law

On August 30, 2013, the Standing Committee of China’s National People’s Congress passed a new Trademark Law (the “New Law”), which will come into effect on May 1, 2014. The New Law makes extensive amendments to the current People’s Republic of China (PRC) Trademark Law, which was promulgated in 1982.

1) TRADEMARK REGISTRATION
In addition to the previously eligible marks, the New Law adds “sound” as a mark that qualifies for legal protection as a trademark. The New Law also allows prospective owners to apply for trademarks in multiple classes through one trademark application, instead of having to submit an application for each class. In addition, the New Law extends the registration renewal period from six to 12 months prior to the trademark’s expiration.
2) PROTECTION OF WELL-KNOWN TRADEMARKS
For the first time, the New Law explicitly provides that a trademark can be recognized as “well-known” by the Trademark Office (CTMO), the Trademark Review and Adjudication Board (TRAB) and the people’s courts designated by the Supreme People’s Court. However, the New Law provides an explicit prohibition on the use of the phrase “well-known trademark” for commercial advertising purpose.

3) DEADLINES IMPOSED ON THE AUTHORITIES
In order to accelerate the trademark prosecution process, the New Law creates a deadline of nine months each for the examination of an application, an application appeal, a non-use cancellation and an appeal for non-use cancellation, as well as a deadline of 12 months each for an examination of an opposition and opposition appeal.

4) TRADEMARK OPPOSITION
A trademark that survives an opposition in CTMO will be deemed as registered, and an opponent’s option of filing an appeal to TRAB or the court has been removed under the New Law. Instead, a fresh cancellation petition to TRAB is the newly provided mechanism for appeal.

5) THE DOCTRINE OF GOOD FAITH
The doctrine of good faith is one of the fundamental principles of civil law and is more deeply integrated into PRC trademark jurisprudence by the New Law. The filing of a trademark application and the use of a trademark is now required to comply with the doctrine of good faith, and any trademark agent who violates this doctrine may face fines or even criminal charges.

6) TRADEMARK ENFORCEMENT
The New Law provides for dramatic increases in the administrative fines and compensation for trademark infringement. The new maximum level of statutory damages has risen to RMB 3,000,000 (about $500,000 U.S.), and the new maximum amount for administrative fines is five times the illegal gains, up to RMB 250,000 (about $40,000 U.S.). In addition, if a party commits trademark infringement on two or more occasions within five years, there may be heavier administrative punishments.

There are also some protections for defendants in private enforcement actions. The New Law allows an accused infringer to require a trademark owner to prove the use of the trademarks in contention within the three-year period prior to the filing of the lawsuit. If a right holder is unable to prove such use and is also unable to prove any other losses suffered as result of the alleged infringing behavior, the defendant would not be liable.

Cert Alert
Supreme Court Takes Three New IP Cases

On October 2, 2013, the U.S. Supreme Court granted certiorari in three cases of interest to the intellectual property community. Two of the cases (on appeal from the U.S. Court of Appeals for the Federal Circuit) relate to the exceptional case doctrine under 35 USC §285. The third, an appeal from the U.S. Court of Appeals for the Ninth Circuit, relates to application of the three-year statute of limitations under the Copyright Act and involves the iconic film Raging Bull.

Section 285 provides that a “court in exceptional circumstances may award reasonable fees to the prevailing party.” In one of the Federal Circuit cases, Octane Fitness, LLC v. Icon Health and Fitness, Inc. (Supr. Ct. Docket No. 12-1184), the basic issue is the proper definition of an “exceptional case” under §285. Octane Fitness was sued by Icon Health and Fitness for patent infringement. Although Octane Fitness won the case at the district and appellate court levels, it was denied recovery of attorneys’ fees because the case was not deemed “exceptional.”

Question presented: Whether the Federal Circuit’s promulgation of a rigid and exclusive two-part test for determining whether a case is “exceptional” under 35 U.S.C. § 285 improperly appropriates a district court’s discretionary authority to award attorney fees to prevailing accused infringers in contravention of statutory intent and this Court’s precedent, thereby raising the standard for accused infringers (but not patentees) to recoup fees and encouraging patent plaintiffs to bring spurious patent cases to cause competitive harm or coerce unwarranted settlements from defendants.

In the second of the Federal Circuit cases, Highmark Inc. v. Alleicare Health Management Systems, (Supr. Ct. Docket No. 12-1163), Highmark has asked the Supreme Court to focus on whether the Federal Circuit must give deference to a lower court award of attorneys’ fees to a prevailing party. In its petition, Highmark argued that “the Patent Act provides that case is ‘exceptional’ if it is objectively baseless and brought in bad faith. After living with this case for more than six years, the District Court found that it was objectively baseless and brought in bad faith, and it awarded fees. Over a strong dissent, a Federal Circuit panel reversed, holding that a district court’s objective baselessness determination is reviewed ‘without deference.’” Highmark’s petition further notes that the Federal Circuit’s de novo review “establishes a review standard for exceptional case findings in patent cases that is squarely at odds with the highly deferential review adopted by every regional circuit and the Supreme Court in other areas of law.”

McDermott Will & Emery has a strategic alliance with MWE China Law Offices, a separate law firm based in Shanghai. This article was authored by MWE China Law Offices lawyers Winston Zhao and Wendy Wu.
Question presented: Whether a district court’s exceptional-case finding under 35 U.S.C. § 285, based on its judgment that a suit is objectively baseless, is entitled to deference.

In the 9th Circuit appeal, Petrella v. Metro-Goldwyn-Mayer, (Supr. Ct. Docket No. 12-1315), the issue focuses on the doctrine of laches as it applies to copyright enforcement—with a particular focus on what might be termed “rolling infringement.” The copyright holder is the daughter of Peter Petrella, author of the screenplay The Raging Bull about the life of boxer Jake LaMotta. A few years after the screenplay was created, Raging Bull became an Oscar-winning movie for 1980. Many years later (2009), Ms. Petrella sued MGM for copyright infringement, and both claimed to own the copyrights in Mr. Petrella’s works. The basic issue for the Supreme Court is whether the doctrine of laches can block a copyright holder from suing for a new act of infringement (such as distributing another copy of the movie). In her petition for cert, Ms. Petrella framed the question as follows:

The Copyright Act expressly prescribes a three-year statute of limitations for civil copyright claims. 17 U.S.C. § 507(b). The three-year period accrues separately for each act of infringement, even if it is one of a continuing series of acts of infringement.

The federal courts of appeals have divided 3-2-1 over whether the non-statutory defense of laches can bar a civil copyright suit within the express three-year statute of limitations. Three circuits forbid any application of laches or restrict the remedies to which it can apply. Two other circuits strongly disfavor laches and restrict it to exceptional circumstances. The 9th Circuit not only does not restrict laches or the remedies to which it can apply, but has also adopted a presumption in favor of applying laches to continuing copyright infringements.

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